

Message Text

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46/53

ACTION ARA-10

INFO OCT-01 ISO-00 ARAE-00 ABF-01 FBO-08 A-01 /021 W

----- 077252

P 181727Z SEP 74

FM AMEMBASSY LIMA

TO SECSTATE WASHDC PRIORITY 1952

UNCLAS LIMA 7836

C O R R E C T E D COPY (FOR DOLLAR NUMBER IN NEXT TO LAST LINE OF
PARA #5 (\$2700 VICE \$27000))

E.O. 11652: N/A

TAGS: ALLOW, AFSP, PE

SUBJECT: QUARTERS ALLOWANCE

FOR ARA-LA/EX

1. SINCE ARRIVAL OF POLITICAL COUNSELOR JACKSON SMITH ONE MONTH AGO, BOTH EMBASSY AND SMITH HAVE BEEN TRYING TO LOCATE SUITABLE REPRESENTATIONAL RESIDENCE FOR OFFICIAL EASE WITHIN GENERAL LIMITATIONS OF QUARTERS ALLOWANCE STRUCTURE AND NOT EXCEEDING SIGNIFICANTLY AN ESTIMATED SOLES 27,000 (US\$622.41) PER MONTH RENTAL WHICH WAS USED FOR FY-1975 BUDGET PLANNING PURPOSES. SO FAR THESE EFFORTS HAVE BEEN UNSUCCESSFUL. BASED ON CURRENT MARKET, WHICH SHOWS NO SIGNS OF LEVELING OFF, EMBASSY SEES LITTLE LIKELIHOOD OF FINDING A MINIMALLY SUITABLE RESIDENCE FOR SMITH FOR LESS THAN SOLES 35,000 (US\$806.82) PER MONTH AND ITS IS ENTIRELY POSSIBLE THAT IT WILL BE NECESSARY TO GO TO SOLES 40,000 (US\$922.08).

2. AS HAS BEEN REPORTED PREVIOUSLY, PERU IS CURRENTLY EXPERIENCING AN ANNUAL RATE OF INFLATION OF APPROXIMATELY 22 PERCENT. ECONOMIC INDICATORS PROVIDE NO BASIS FOR ANTICIPATING A DECLINE IN THIS RATE; TO THE CONTRARY, IT WILL CERTAINLY CONTINUE FOR THE NEXT YEAR WITH LITTLE CHANCE OF ABATEMENT FOR THE FORESEEABLE FUTURE. AS A DIRECT RESULT, RENTS ARE RISING RAPIDLY. AS A GRAPHIC ILLUSTRATION OF THIS PROBLEM, THE FOLLOWING IS A TABLE OF COMPARISON OF RENTS AND QUARTERS

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ALLOWANCES FOR RECENT ARRIVALS OR FOR LEASES THAT WERE

RECENTLY NEGOTIATED:

NAME AND GRADE	QUARTERS	DATE OF LEASE	ACTUAL RENT	ALLOWANCE OR RENEGOTIATION	AND UTILITIES
FSR-6 JOSEPH FERNANDEZ	\$5400	OCTOBER 15	\$8100		
FSO-5 JAMES CREAGAN	\$5000	SEPTEMBER 15	\$5759		
FSS-6 WILLIAM DURYEE	\$4700	AUGUST 25	\$7165		
FSS-6 DONALD MOELLER	\$4900	AUGUST 15	\$6904		
FSO-2 EDWARD CHENEY	\$7350	JULY 9	\$9198		
FSR-7 TODD HAGENAH	\$4900	JULY 1	\$5602		

3. AS THE DEPARTMENT IS ALSO AWARE, THE MISSION AND ITS PERSONNEL MUST OBTAIN LOCAL CURRENCY AT THE LEGAL EXCHANGE RATE OF SOLES 43.38 TO US\$1.00, WHILE THE LOCAL ECONOMY IN RECENT MONTHS HAS BECOME MORE REALISTICALLY BASED ON, AND IS USING IN ITS CALCULATIONS, A BLACK MARKET RATE OF 60 TO 70 SOLES TO THE DOLLAR. RENTAL RATES ARE OF COURSE GEARED TO THE LOCAL ECONOMY AND ACCURATELY REFLECT THIS FACT OF LIFE IN PERU. THE GOP PERMITS DOLLAR PAYMENTS TO LESSORS WHO ARE LEGALLY RESIDENT OUTSIDE OF PERU AND, IN THOSE ISOLATED CASES WHERE SUCH A DOLLAR PAYMENT IS POSSIBLE, THE EMBASSY HAS BEEN ABLE TO NEGOTIATE A RENTAL RATE MORE THAN 30 PERCENT UNDER THE ASKING PRICE. UNFORTUNATELY, OUR COMPETITORS FOR AVAILABLE HOUSING ARE NOT NEARLY SO CONSTRAINED TO OBSERVE OFFICIAL EXCHANGE RATES.

4. TO EXACERBATE THIS PROBLEM, THE RECENT AND CONTINUING INFLUX OF STAFF OF OIL COMPANIES AND ASSOCIATED INDUSTRIAL REPRESENTATIVES IN CONNECTION WITH THE DEVELOPMENT OF PERU OIL RESOURCES IS SATURATING THE REALTY MARKET WITH PROSPECTIVE TENANTS FOR AVAILABLE HOUSES, WITH WHOSE FINANCIAL RESOURCES THE EMBASSY IS SIMPLY UNABLE TO COMPETE. THIS SITUATION WILL GET SUBSTANTIALLY WORSE BEFORE IT GETS BETTER. ONLY THREE DAYS AGO, AN AMERICAN CONSTRUCTION COMPANY CONTRACTED WITH THE GOP TO CONSTRUCT THE MAJOR PORTION OF A \$350 MILLION PIPELINE FROM THE JUNGLES IN NORTHEASTER PERU WHERE THE PRINCIPAL OIL DISCOVERIES ARE LOCATED TO THE PACIFIC COAST. OTHER MAJOR PROJECTS WHICH WILL ENTAIL A FURTHER INCREASE IN THE NUMBER OF WELL-HEALED INDUSTRIAL EXECUTIVES AND TECHNICIANS ARE IN THE MILL. IN RECENT MONTHS, MEMBERS OF THE MISSION HAVE LOST HOUSE AFTER HOUSE TO OIL COMPANY PERSONNEL WHO CAN PAY HIGHER

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RENTS. SMITH HAS LOST AT LEAST TWO SUITABLE HOUSES VIA THIS ROUTE AND, AS THE DEMAND GROWS, THE SUPPLY OF SUITABLE QUARTERS DIMINISHES.

5. THE EMBASSY REALIZES IT HAS THE AUTHORITY TO EXERCISE ITS JUDGMENT IN DOING WHAT IS NECESSARY TO PROVIDE SMITH WITH A SUITABLE REPRESENTATIONAL RESIDENCE UNDER OFFICIAL LEASE. HOWEVER, WITH RENTAL RATES SOARING WELL BEYOND QUARTERS

ALLOWANCE LEVELS, ANTICIPATED COSTS WILL FAR EXCEED THE AMOUNT
BUDGETED FOR THIS PURPOSE. FOR THIS REASON, THE EMBASSY WOULD
LIKE TO HAVE THE CONCURRENCE OF ARA-LA/EX TO ENTER INTO AN
OFFICIAL LEASE FOR THE POLITICAL COUNSELOR'S RESIDENCE AT A
RENT OF APPROXIMATELY SOLES 35,000 (US\$806.82) BUT NOT TO
EXCEED SOLES 40,000 (US\$922.08). ON A PRO-RATED ANNUAL BASIS
AT THE HIGHER FIGURE, THIS COULD EXCEED THE EMBASSY'S ESTIMATE
BY APPROXIMATELY \$2700 FOR THE REMAINING NINE MONTHS OF THE
FISCAL YEAR. AN URGENT REPLY WOULD BE APPRECIATED.
DEAN

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